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INFO RUEHCV/AMEMBASSY CARACAS PRIORITY 7674
RUEHZP/AMEMBASSY PANAMA 9116

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E.O. 12958: DECL: 05/10/2016
TAGS: ENGR EPET CO VE
SUBJECT: COLOMBIA/VENEZUELA PIPELINE; PIPE DREAM BECOMING A REALITY

Classified By: DEPUTY CHIEF OF MISSION MILTON DRUCKER FOR REASON 1.4(B) AND(D)

¶1. (C) Summary: GOC officials confirmed that a long-planned gas pipeline from La Guajira, Colombia to Lake Maracaibo, Venezuela is set to begin construction in July 2006. The pipeline is estimated to cost USD 300 million and will be financed entirely by the Venezuela's national petroleum company, Petroleos de Venezuela (PDVSA). PDVSA will operate and maintain the pipeline to import natural gas to power refineries and power plants in Venezuela's strategic western oil region. GOC officials anticipate the pipeline will generate approximately USD 153 million dollars in annual revenue. Venezuela hopes to use the pipeline to sell natural gas to Colombia once PDVSA completes its domestic gas network, but Colombian officials doubt the viability of the plan. End Summary.

¶2. (C) The Maricaibo-La Guajira pipeline has been in the planning stages for many years (an MOU was signed between the two governments in 2001). According to GOC officials, the BRV is desperately looking for natural gas to power refineries and electric generation facilities in the Western Maracaibo region. The La Guajira pipe line will provide a temporary fix for Venezuela until the completion of the BRV's domestic gas infrastructure sometime after 2012. GOC Ministry of Energy officials report the 26 inch diameter gas line will pump 4.24 million cubic meters of natural gas to Venezuela on a daily basis. GOC officials estimate income from the exported gas will reach USD 153 million per year.

¶3. (C) The pipeline, costing an estimated USD 300 million will be fully financed, operated, and maintained by PDVSA. According to GOC officials, Venezuela hopes to use the pipeline to export natural gas to Colombia, once the BRV's domestic gas network is on line, and eventually extend the line to Panama for export to Central America or beyond. GOC officials view this business plan with some skepticism, however, as new gas discoveries off Colombia's North Coast could provide low-cost alternatives to Venezuelan supply.

¶4. (C) GOC official described dealing with the Venezuelans as an "experience". They explained, despite the fact that Chevron owns and operates 50% of the natural gas fields in La Guajira, for example, PDVSA did not want the American company involved in this deal. The GOC agreed to act as the purchasing and buying agent for all transactions. Chevron noted to us however, that the arrangement with Ecopetrol provides for just such sales. Therefore, they have no difficulty in being excused from negotiating with PDVAS. To expedite the project, the GOC accelerated its environmental impact review (which began in January 2006 and is normally a 120 week process), and expects a final determination by May 15, 2006. The "hard" target date for beginning construction is July 1, 2006.

¶5. (C) Chevron (protect) officials who produce the gas involved in the deal explained they are finding significant additional gas reserves off the Guajira coast. We will provide more information on this in future reports.

¶6. (C) Comment: Despite current political differences on regional issues, the GOC and BRV are showing that "business is business". For Colombia, the La Guajira-Maracaibo pipeline represents a guaranteed market for its abundant North Coast natural gas at no capital cost. For its investment, Venezuela guarantees the steady supply of the energy it needs to expand oil production on western Lake Maracaibo. Future returns to Venezuela, should it plan to use the pipeline for gas exportation down the road, are not as certain.
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